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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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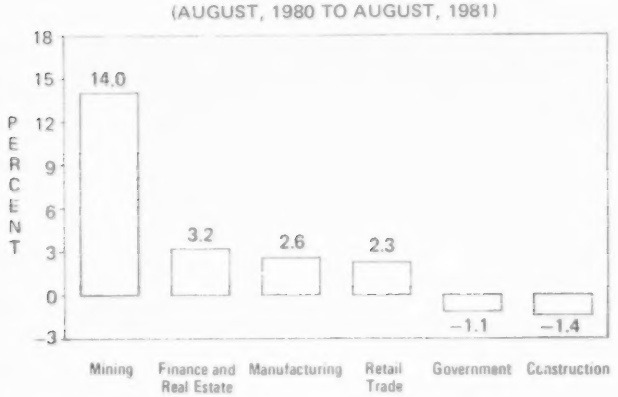
Labor Market Conditions . . .

One of the more recent indications that the pace of economic activity is treading water was the labor market report for August. Although the unemployment rate in August rose to a seasonally adjusted 7.2 per cent of the work force from 7.0 per cent in July, this development did not represent a significant departure from past trends. This rate has fluctuated between 7.0 and 7.6 per cent since May, 1980, reaching the high of 7.6 per cent on five separate occasions, and averaging 7.4 per cent during the 16-month period as a whole.

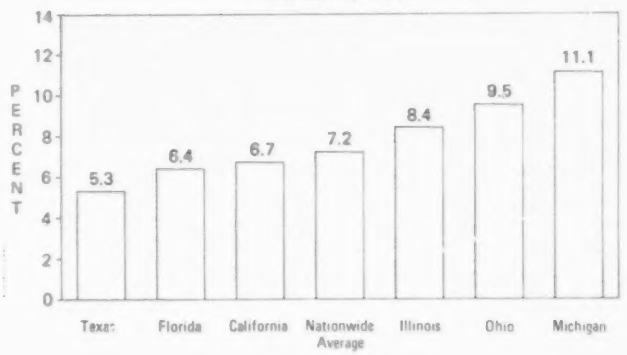
In August, total employment remained unchanged month-over-month, holding steady at a seasonally adjusted 98.9 million workers. However, in this case, it is three million jobs higher than just six months ago, despite well-publicized pronouncements of imminent recession, a sharp downturn in residential construction and the sluggish pace of new automobile sales. Among the goods-producing industries, total employment continued to expand in mining (especially in those companies associated with oil and gas extraction), advancing 1.6 per cent in August compared with July levels and a sizable 14 per cent, or about 150,000 jobs, year-over-year.

CHART I
12-MONTH PERCENT CHANGE IN EMPLOYMENT BY INDUSTRY
(AUGUST, 1980 TO AUGUST, 1981)



Employment in the construction industry—hard-hit by high interest rates—continued to stagnate. It dropped slightly in August month-over-month and currently stands 1.4 per cent below year-earlier levels. Employment declines were also posted in some manufacturing industries.

CHART II
UNEMPLOYMENT RATE: NATIONWIDE AND BY STATE
(AUGUST, 1981)



Looking beneath the surface, job losses in the food processing (30,000) and lumber and wood (15,000) industries overwhelmed a 15,000 jobs gain in the machinery-producing industries, prompting the first downturn in manufacturing employment in six months. A net decline of 32,000 jobs, or 0.2 per cent, was posted, month-over-month. But despite this modest setback, manufacturing employment in August still stood 2.6 per cent above year-ago levels (see Chart I).

. . . Exhibit A Persistent Resiliency

In the services sector, in contrast, the number of people employed in retail trade increased by 60,000 in August, and by 350,000 during the past year. However, the budget ax may have finally begun to take its toll on Federal, state and local government employees. The number of Federal jobs declined by 35,000 in August compared with July levels and now stands 2.4 per cent below year-earlier levels. Federal employment has now declined in six of the past eight months and, in August stood more than 11 per cent below the 3.1 million peak reached in April, 1980. The number of state and local government employees posted a somewhat smaller decline during the month. State and local government employment declined by 17,000 persons in

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August, and by about one per cent year-over-year. State and local government employment has, however, been ratcheting downward more rapidly since late 1980, losing approximately 200,000 jobs in the last ten months.

The number of unemployed persons rose 2.1 per cent in August, to 7.7 million, after decreasing 3.6 per cent in July. Although this total is somewhat higher than the month before (7.5 million), it is still slightly below the 7.8 million average which has prevailed during the year to date. Also, as with employment by industry, unemployment varied widely, depending upon age-sex group and region.

Whereas the rate of unemployment among young men aged 20-24 years stood at 12.7 per cent in August, the rate of unemployment among all married men remained below four per cent. Unemployment among teenagers of both sexes, however, remained lofty—affecting one of every five persons aged 16-19 years.

Regionally, unemployment varied significantly by state. In general, states located in the sunbelt continued to register rates of unemployment well below those posted not only in the northern industrial states but also the nation as a whole. The unemployment rate in Texas in August, for example,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/2/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	133.601	– .980	+ 4.907
Loans to Depository Inst.	1.448	– .278	+ .100
Float	2.763	+ .615	– 1.425
Total Reserve Bank Credit	146.601	– .698	+ 7.081
Treasury Deposits with Federal Reserve Banks	3.419	+ .313	+ .713
Currency Outside Banks	123.811	– .717	+ 5.670
Member Bank Reserves:			
Required	40.831	– .450	+ .230
Excess (Deficiency)	.265	+ .103	– .209
Total Reserves Held	41.096	– .347	+ .021
Net Borrowed Reserves	.937	– .381	+ .085
Gov't held for Foreign Acct. by F.R. Banks (End-of-Week)	91.837	+ .189	+ 8.192

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	430.9	+ 1.3‡	+ 6.0‡
M2 (August '81)	1,779.0	+ 8.2	+ 8.9
M3 (July '81)	2,090.9	+ 9.1	+ 11.6
L (May '81)	2,476.7	+ 7.3	+ 11.0

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 9/11/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.95%	15.26%	14.70%
* Federal Agencies	16.19	17.15	16.72
* Project Notes—Taxfree (46% Taxable Equivalent)	15.74	18.05	18.05
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.35	17.70	18.13

‡Finance Company Paper—Prime

5- 14 days	16.25%
15- 29 days	16.50
30- 59 days	16.75
60- 89 days	16.75
90-179 days	16.75
180-239 days	15.00
240-270 days	12.00

‡* Bankers' Acceptances

Oct.	16.65%
Nov.	16.65
Dec.	16.60
Jan.	16.55
Feb.	16.45
Mar.	16.20

‡Industrial Paper—Prime

30- 89 days	16.88%
90-120 days	16.63

†Federal Funds Effective Rate 16.20%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,882	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,507	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	– 2.4%	8.6%	– 9.3%
Change in Consumer Prices (all urban consumers)*	Jul '81	14.4%	8.4%	12%
Change in Producer Prices*	Aug '81	3.6%	4.8%	14.4%
Civilian Employment (Thousands of Persons)†	Aug '81	98,944	98,962	97,003
Unemployment as % of Civilian Labor Force†	Aug '81	7.2%	7.0%	7.6%
Personal Income*	Jul '81	$ 2,422	$ 2,385	$2,161
Leading Indicators Composite Index (1967=100)†	Jul '81	133.7	133.9	128.1
Industrial Production Index (1967=100) †	Jul '81	153.4	152.9	140.4
Net Change in Consumer Installment Credit†	Jul '81n	$ 1.95	$ 1.93	–$ 1.20
U.S. Merchandise Trade Balance †	Jul '81	–$ 0.54	–$ 2.10	–$ 0.87
Plant and Equipment Expenditures*	4th Q'81n	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Jul '81	1,055	1,021	1,277
New Construction Expenditures*	Jul '81	$ 235.1	$ 238.7	$ 216.4
Total Business Inventories†	Jun '81	$ 493.5	$ 490.3	$ 464.2
Total Business Sales†	Jun '81	$ 353.0	$ 349.2	$ 305.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

was less than one-half that in Michigan and almost two full percentage points below the national average (see Chart II on the first page). One possible explanation has been the surge in employment in the oil and gas industries which rose, nationwide, by almost 20 per cent between July, 1980 and July, 1981.

Some Good News On Prices

Despite the disappointing, housing-based surge in the consumer price index in July (Financial Digest—August 31, 1981), it is much too early to expect an imminent return to double-digit rates of inflation. One encouraging sign was the extremely modest rise in the producer price index (PPI) in August. The index for finished goods rose only 0.3 per cent last month, following increases of 0.4 per cent in July and 0.6 per cent in June. During the 12-month period ending August, 1981, the PPI rose 7.9 per cent—well within single-digit territory.

At other stages of processing, price improvements were also posted—especially compared with year-ago performance. Raw materials' prices declined by 0.6 per cent in August compared with July, a substantial turnaround from the 4.6 per cent, month-over-month advance posted in August, 1980. At the intermediate level, producers' costs rose by 0.4 per

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/26/81)	130,174	+ 1,702	+36,607
New York City (8/26/81)	30,859	+ 820	+ 8,859
Commercial Paper (8/26/81)	155,048	+ 1,009	+34,204

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/26/81)	182,859	+ 75	+22,247
New York City (8/26/81)	53,393	– 20	+ 5,644

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/26/81)	447,659	+ 2,025	+47,353
New York City (8/26/81)	105,868	+ 369	+14,231

Financial Markets

	Friday 9/11/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.52%	– 1.68	+ 4.06
180-Day Bills†	14.84	– 2.16	+ 4.26
Longest Bills†	14.41	– 2.69	+ 3.90
Recent Issues:			
16¼s 8/31/83	16.66	– .19	
14s 6/30/85	16.03	– .92	
14⅞s 8/15/91	15.06	– .29	
13⅞s 5/15/11	14.45	– .35	
Municipals:			
Bond Buyer–20 Bond Index* (9/10/81)	13.21%	+ .11	+ 4.39
Blue List Total ($ Million)	$ 584	– $ 42	– $ 103
30-Day Visible Supply ($ Million)	$1,593	+ $248	– $1,091
Total	$2,177	+ $206	– $1,194
Corporates:			
Moody's Aa Composite (9/10/81)	15.95%	+ .18	+ 3.58
30-Day Visible Supply ($ Million)	$8,447	– $450	+ $4,735
Stocks:			
Dow-Jones Averages:			
Industrials	872.81	+ 11.13	– 63.71
Transportation	358.40	– .26	+ 37.14
Utilities	107.27	+ .83	– 4.89
65 Stocks	339.95	+ 2.62	– 2.53
Standard and Poor's 500 Stocks	121.61	+ 1.54	– 3.93
N.Y.S.E. Composite Index	70.32	+ .77	– 2.33
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,798	+ 3,196	– 1,218

* 46% Taxable equivalent 24.46%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/11/81	Week Ago
Overnight	16.88%	16.75%
1 month	17.50	18.00
3 month	18.00	18.63
6 month	18.25	18.69
1 year	17.88	18.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.45%	15.30%
Long Term (7 to 15 yrs.)	15.35	15.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/11/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02541	39.36
Canada	.8282	1.2074
Denmark	.1328	7.5278
France	.1734	5.7675
Germany	.4161	2.4033
Italy	.0008287	1206.70
Japan	.004317	231.63
Mexico	.03989	25.07
Netherlands	.3761	2.6590
Switzerland	.4848	2.0625
U.K.	1.7960	.5568

cent, the same increase as in July, but less than one-half the one per cent gain registered in August, 1980 month-over-month.

Despite repeated pronouncements of an imminent food price surge, food prices actually exerted a favorable impact on the rate of producer price inflation last month. Consumer food prices increased only 0.2 per cent month-over-month, a sharp deceleration from the 1.5 per cent surge in July. Another major factor dampening the rate of inflation last month was energy. Prices of finished energy products fell 0.7 per cent, the third decrease in the last four months. Contributing to this decline was a 1.2 per cent month-over-month drop in prices of refined petroleum products (the fourth in a row) and a 0.3 per cent decline in domestic crude oil prices, compared with month-earlier levels. What is more, the outlook for energy prices is for further moderation. The decline in domestic and global petroleum consumption relative to current production levels ensures additional downward pressures on crude oil prices ahead. H

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